NEWFOUNDLAND
LIQUOR
CORPORATION

1987 Annual Report

93-02660/

NEWFOUNDLAND
LIQUOR
CORPORATION

Honourable Dr. J. F. Collins, F.R.C.P.(E)
Minister of Finance
Government of Newfoundland & Labrador
Confederation Building
St. John's, Newfoundland
A1C 5T7

Dear Mr. Minister:

I am pleased to submit the 14th annual report of the Newfoundland Liquor Corporation.

The report summarizes the Corporation's activities during the fiscal year ending March 31, 1987 and outlines a financial comparison with the previous year.

We gratefully acknowledge the contribution of all the Corporation's employees whose positive efforts contributed to our progress during the past year.

Yours very truly,

DOUGLAS M. CHAFE, C.M.A.
President.

P.O. BOX 8750, STATION "A", KENMOUNT ROAD, ST. JOHN'S, NEWFOUNDLAND A1B 3V1 • TELEPHONE (709) 754-1100

Financial comparisons of 1986-87 to fiscal 1985-86 are not meaningful because of a labour dispute in the local brewing industry during 1985-86. To provide a more meaningful result the increases or decreases from fiscal 1984-85 are shown in parentheses.

During the fiscal year ended March 31, 1987, the Corporation realized a net income of $72,408,631, a decrease of $8,445,688 from the previous year (decrease of $560,051 from 1984-85). This income was derived from two sources:

1. $35,810,546 from sale of spirits, wines and beer through Corporation liquor stores and liquor agency stores, and,
2. $36,598,085 through the collection of a Corporation mark-up on local beer.

Corporation liquor store and agency store operations resulted in sales of $86,002,716, a decrease of $60,739,430 from the previous year (increase of $6,591,034 from 1984-85). Income from beer commissions totalled $36,598,085, an increase of $22,387,552 over the previous year (decrease of $1,095,759 from 1984-85). Operating and administrative expenses for 1986-87 totalled $11,650,539, a decrease of $461,234 from the previous year (increase of $513,436 from 1984-85).

The "Statement of Changes in Financial Position" has been renamed to the "Statement of Changes in Cash Position" as it now focuses on cash and cash equivalents rather than total working capital.

During the year, the Corporation continued to enhance its computerized information systems and processing methods. New on-line user oriented General Ledger, Accounts Payable and Fixed Asset Systems were implemented. Requirements for new Inventory Management Systems and an enhanced Sales Analysis System to be implemented during 1987-88 were started.

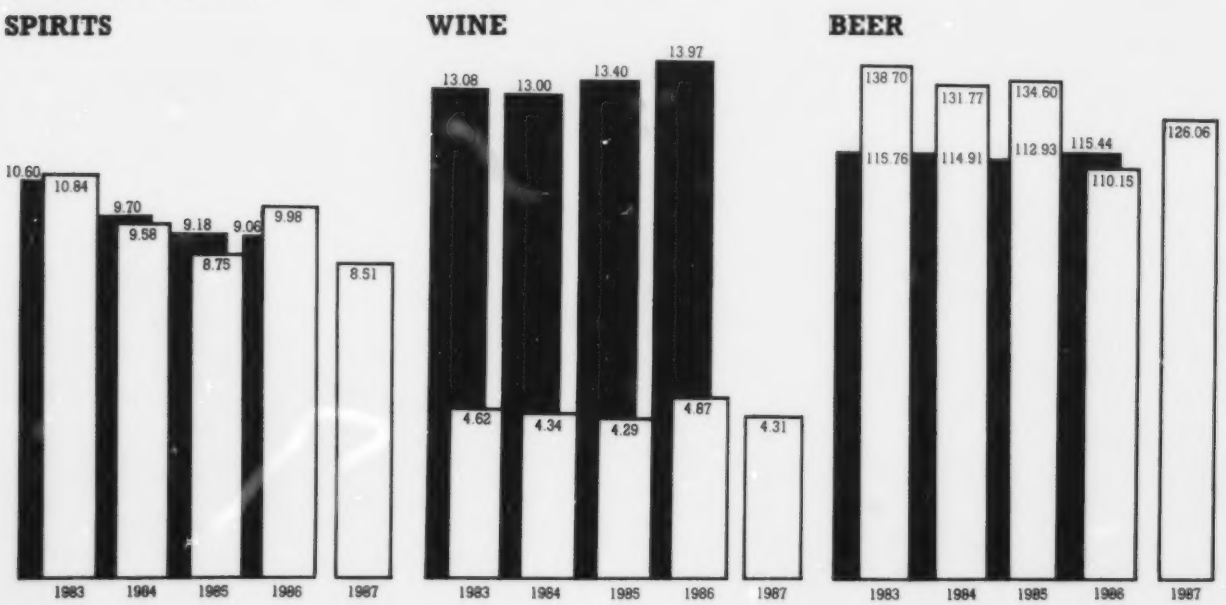
On July 19, 1986, the Corporation and the Newfoundland Association of Public Employees reached agreement on a wage reopener for the second and third year of the Collective Agreement. Annual increases of 6% effective April 1, 1986 and April 1, 1987 were agreed to in addition to a $100.00 per annum adjustment on January 1, 1987 and January 1, 1988. Contract language remained unchanged.

Continued efficient utilization of manpower at the store level led to the introduction of a formalized Performance Appraisal System for the Store Operations department to ensure that all employees were given a clear definition and understanding of their roles and responsibilities.

Per Capita Consumption

Litres
Fiscal year ended March 31,1987
By population 19 years of age and over

Provincial Average
National Average



The decrease in beer and the increase in spirits and wine for 1986 was due to 7½ month labour dispute in the Brewing industry.

To assist employees in increasing their skills and achieving performance standards, emphasis was placed on training in product information and general business knowledge. Seminars for all Store Managers and Assistant Managers, visits by selected Managers from each region to suppliers' production facilities, and distribution of product correspondence courses to all store staff are examples of methods used to improve employee performance.

Revisions to the Corporation's product promotional policy for in-store displays provided better utilization of this merchandizing technique to satisfy the big demand by suppliers. Beaujolais Nouveau was, again, successfully marketed with positive press coverage and a number of other specialty wines and spirits in the medium price range were added to the Corporation's product list. The pre-Christmas release on a reserve basis of a variety of top quality 1983 Bordeaux reds was greeted enthusiastically by interested consumers.

The remaining inventory of European beer, left from last year's local brewery strike, was quickly sold when it went on sale on May 7. Later in the year, a sale of limited amounts of delisted wines and spirits made available warehouse and retail store shelf space for the introduction of new brands.

To allow more efficient handling of product, additional space was acquired in the Corner Brook (Millbrook), Gander, Mount Pearl, Flower's Cove, and Bay Roberts stores. Renovations were also started and/or completed at the stores in Harbour Grace, Baie Verte, Happy Valley, St. Lawrence, Grand Bank, Harbour Breton, Botwood, and Bay Roberts.

While no new agency stores were opened during the year, agency contracts were transferred to new operators in Piccadilly and Jackson's Arm and the agencies were re-advertised in Fogo, Lark Harbour, Roddickton, and Hampden. As of March 31, 1987, the Corporation operated thirty-seven liquor stores and fifty-one agencies.

Despite a decline of 2% in sales of spirits in the rest of Canada, exports of locally bottled spirits to the Canadian market increased by 6% to 37,000 cases. Total production for the Bottling Plant increased by 7,800 cases, or 6%, to 133,800 cases.

Contract bottling of the miniature 50 ml. bottle continued to be in demand and resulted in sales of 10,400 cases containing 120 x 50 ml. bottles.

Plans to introduce two new brandies in the new fiscal year were well underway—one will be the Corporation's own brand ("CHARENAC") for the local market and the other under a bottling agreement for sale in Newfoundland and the Maritimes.

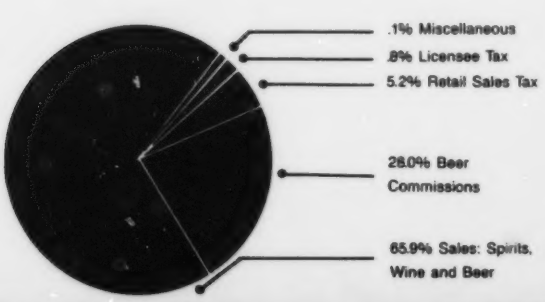
A new water purifier to provide water for the reduction and blending of bulk spirits was installed at year-end, and this, along with high standards for quality control procedures, will continue to ensure the production of fine quality products.

During the year, the central warehouse was completely re-organized, resulting in increased storage capacity and more efficient material handling capabilities. Overall inventories were reduced more than five percent, and the average turnover rate is five times a year.

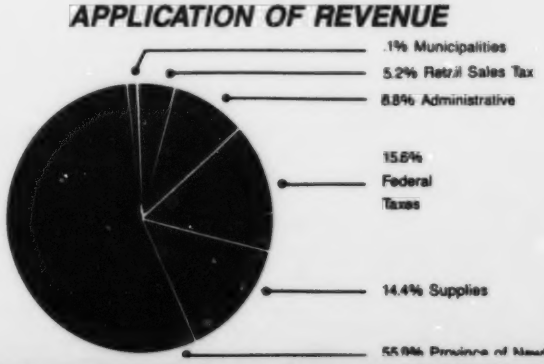
The Corporation continues to expand its product line to include many new products being introduced into the market place; stores are being improved to provide better service to the consumer, and overall efficiency improvements are ongoing.

The Corporation gratefully acknowledges the efforts and co-operation of the employees and the support of the Board of Directors.

SOURCE OF REVENUE



APPLICATION OF REVENUE



Auditor's Report

To the President and Members
Newfoundland Liquor Corporation
St. John's, Newfoundland

I have examined the balance sheet of the Newfoundland Liquor Corporation as at 31 March 1987 and the statements of income, retained earnings and changes in cash position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Corporation as at 31 March 1987 and the results of its operations and the changes in its cash position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

J.F. McGrath, C.A.
Auditor General

St. John's, Newfoundland
9 September 1987

Balance Sheet, March 31, 1987

Assets

	1987	1986
Current		
Cash	**$ 9,149,080**	$ 10,003,353
Accounts receivable (Note 2)	**545,908**	638,654
Beer commissions receivable	**2,830,692**	2,607,548
Inventories, at cost (Note 3)	**14,811,508**	13,487,643
Prepaid expenses	**117,968**	106,545
Total current assets	**27,455,156**	26,843,743
Fixed assets, at cost less accumulated depreciation (Note 4)	**2,151,962**	2,182,392
Assets under capital lease, at cost less accumulated amortization of $68,853 ($13,696 — 1986)	**209,542**	260,231
Other assets, at cost less accumulated amortiation (Note 5)	**508,976**	449,025
Total assets	**$30,325,636**	$29,735,391

Liabilities and Retained Earnings

	1987	1986
Current		
Accounts payable	**$ 3,403,477**	$ 2,580,851
Accrued liabilities	**4,212,828**	3,418,253
Current portion of obligation under capital lease (Note 6)	**47,465**	39,576
Current portion of long-term debt (Note 7)	**400,000**	400,000
Total current liabilities	**8,063,770**	6,438,680
Obligation under capital lease (Note 6)	**181,557**	225,033
Long-term debt (Note 7)	**1,400,000**	1,800,000
	9,645,327	8,463,713
Retained earnings		
Due to Province of Newfoundland	**20,680,309**	21,271,678
Total liabilities and retained earnings	**$30,325,636**	$29,735,391

See accompanying notes

Signed on behalf of the Board

President

Director

Statement of Retained Earnings
For the Year Ended March 31, 1987

	1987	1986
Balance, beginning of year	$21,271,678	$15,517,359
Net income for the year	72,408,631	80,854,319
	93,680,309	96,371,678
Payments to the Province of Newfoundland	73,000,000	75,100,000
Balance, end of year	$20,680,309	$21,271,678

See accompanying notes

Statement of Income
For the Year Ended March 31, 1987

	1987	1986
Sales	$86,002,716	$146,742,146
Cost of goods sold		
Inventory, beginning of year	13,487,643	11,834,693
Purchases	40,939,469	70,832,830
Cost of goods available for sale	54,427,112	82,667,523
Less: Inventory, end of year	14,811,508	13,487,643
	39,615,604	69,179,880
Gross profit	46,387,112	77,562,266
Other operating income		
Commission on licensee purchases	979,039	1,072,794
Miscellaneous	94,934	120,499
	1,073,973	1,193,293
	47,461,085	78,755,559
Expenses		
Administrative and operating expenses (Schedule 1)	11,650,539	12,111,773
Net income from liquor store operations	35,810,546	66,643,786
Commission revenue on sale of beer	36,598,085	14,210,533
Net income for the year	$72,408,631	$80,854,319

See accompanying notes

Statement of Changes in Cash Position

For the Year Ended March 31, 1987

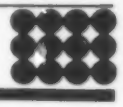
	1987	1986
Cash provided by (used in) operating activities:		
Net income from liquor store operations	**$35,810,546**	$66,643,786
Commission revenue on sale of beer	**36,598,085**	14,210,533
Add: Items of non-cash nature		
Depreciation	**324,809**	333,233
Amortization	**182,069**	124,756
Loss (gain) on disposal of fixed assets	**(5,354)**	1,075
Changes in non-cash working capital	**159,404**	159,574
	73,069,559	81,472,957
Deduct: Payments to the Province of Newfoundland	**73,000,000**	75,100,000
	69,559	6,372,957
Cash provided by (used in) financing activities		
Proceeds from disposal of fixed assets	**5,659**	8,769
Proceeds from capital lease	**4,468**	273,927
Payments under capital lease (including current portion)	**(47,945)**	(48,894)
Repayments of long-term debentures (including current portion)	**(400,000)**	(400,000)
	(437,818)	(166,198)
Cash provided by (used in) investing activities		
Additions to fixed assets	**(294,683)**	(264,660)
Additions to assets under capital lease	**(4,468)**	(273,927)
Additions to other assets	**(186,863)**	(52,879)
	(486,014)	(591,466)
Increase (decrease) in cash flow during the year	**(854,273)**	5,615,293
Cash, beginning of year	**10,003,353**	4,388,060
Cash, end of year	**$9,149,080**	$10,003,353

See accompanying notes

Administrative and Operating Expenses

Year Ended March 31, 1987

	1987	1986
Salaries and employee benefits	**$6,196,089**	$ 6,034,838
Rent	**708,921**	715,643
Freight to stores	**293,432**	732,344
Agency store commissions and expenses	**1,631,546**	1,931,198
Municipal and school tax	**123,365**	132,166
Travel	**126,591**	122,522
Heat and light	**288,575**	297,148
Cleaning	**154,297**	152,615
Communications	**132,621**	152,771
Advertising	**18,291**	15,227
Computer services	**64,721**	79,352
Directors' fees and expenses	**10,179**	5,625
Interest and bank charges	**28,219**	34,507
Motor vehicle expenses	**2,416**	3,014
Consultants' fees	**112,782**	34,656
Security	**75,021**	74,116
Store supplies and wrapping	**81,065**	102,947
Stationery and office supplies	**121,326**	120,222
Postage	**27,179**	31,831
Repairs and maintenance	**305,949**	230,710
Inventory breakage and shortage	**145,564**	206,646
Marketing	**74,643**	65,416
Dues and subscriptions	**9,504**	8,911
Insurance	**39,343**	18,334
Professional fees	**6,620**	6,794
Depreciation	**246,047**	248,596
Amortization	**182,069**	124,756
Uniforms	**52,068**	47,960
Staff recruitment	**7,319**	2,866
Staff training	**77,743**	40,135
Miscellaneous	**23,144**	21,325
Labour negotiations and grievances	**1,252**	2,202
Loss (gain) on disposal of fixed assets	**(5,354)**	1,075
Bad debt expense	**654**	10,967
Interest on long-term debt	**287,338**	302,338
	$11,650,539	$12,111,773



1. **Accounting policies**

The financial statements have been prepared in accordance with accounting principles generally accepted in Canada.

(a) Fixed assets are capitalized at cost at the time of acquisition. Depreciation is recorded over the expected useful life of the asset on a straight line basis at the rates indicated in Note 4.

Depreciation is recorded on a monthly basis with depreciation of an asset commencing in the month of acquisition and ending in the month prior to disposal.

The Blending Department's share of depreciation expense amounting to $78,762 ($84,637 — 1986) is allocated to cost of goods sold.

(b) Leasehold improvements are amortized on a straight line basis over the terms of the individual leases which range from 1 to 20 years.

Following is a schedule of amortization of leasehold improvements by location:

	1987	1986
Head office	$ 41,271	$ 81
Other locations	77,277	102,681
	$ 118,548	$ 102,762

(c) Interest in leased land as described in Note 5 is amortized on a straight line basis over the initial 30 year term. The amount charged to operations in 1987 was $8,364 ($8,297 — 1986).

(d) The equipment under the capital lease is amortized on a straight line basis over the term of the lease. The amount charged to operations in 1987 was $55,157 ($13,696 — 1986).

(e) Federal taxes on inventory held in bond at year end are included in head office inventory and related liability accounts. As at 31 March the following amounts are included in accrued liabilities:

	1987	1986
Customs duty	$ 1,867,537	$ 1,394,920
Excise duty	911,589	817,969
Federal Sales Tax	535,926	374,511
	$ 3,315,052	$ 2,587,400

(f) The Corporation is a Crown Corporation and is therefore not subject to either Provincial or Federal income taxes.

2. **Accounts receivable**

	1987	1986
Trade	$ 363,310	$ 107,210
Claims	103,276	72,375
Other	84,673	468,799
	551,259	648,384
Less: Allowance for doubtful accounts	5,351	9,730
	$ 545,908	$ 638,654

3. **Inventories**

	1987	1986
Raw materials	$ 508,317	$ 841,433
Head office inventory	4,264,341	5,220,100
Branch stores inventory	3,957,022	3,980,330
Stock in transit	1,287,847	758,325
Finished goods	4,793,981	2,687,455
	$14,811,508	$13,487,643

4. Fixed assets

	Depreciation Rate	Cost	Accumulated Depreciation	Net Book Value 1987	Net Book Value 1986
Land	—	$ 190,281	$ —	**$ 190,281**	$ 190,281
Buildings	5%	2,303,053	880,641	**1,422,412**	1,491,963
Store equipment and fixtures	20%	701,022	568,958	**132,064**	128,722
Motor vehicle	33⅓%	15,427	3,860	**11,567**	—
Office furniture and equipment	10% and 20%	570,278	347,644	**222,634**	154,580
Plant and warehouse equipment	20% and 33⅓%	1,126,557	953,553	**173,004**	216,846
		$ 4,906,618	$ 2,754,656	**$ 2,151,962**	$ 2,182,392

5. Other assets

	Cost	Accumulated Amortization	Net Book Value 1987	Net Book Value 1986
Leasehold improvements	$ 2,276,181	$ 1,966,279	**$ 309,902**	$ 241,587
Leased land	248,925	49,851	**199,074**	207,438
	$ 2,525,106	$ 2,016,130	**$ 508,976**	$ 449,025

The land is leased over an initial 30 year period at an annual rental of $4,800 with options to renew for an additional 140 years.

6. Obligations under capital lease

The following is a schedule of future minimum lease payments under the capital lease expiring 12 January 1991 together with the balance of the obligation under capital lease:

Year ending 31 March	
1988	$ 81,204
1989	81,204
1990	81,204
1991	64,230
Total minimum lease payments	$ 307,842
Less: Amount representing interest	78,820
Current portion	47,465
	$ 181,557

7. Long-term debt

	1987	1986
A 12¼%, $2,000,000 debenture, issued to the National Trust Company Limited as Trustee for Prudential Insurance Company of America repayable in ten equal consecutive annual principal instalments of $200,000 commencing on 30 June 1984 and semi-annual interest payments on 30 June and 30 December, commencing 30 December 1983. The debenture is guaranteed unconditionally as to principal and interest by the Province of Newfoundland.	**$ 1,400,000**	$ 1,600,000
An 11⅞%, $1,000,000 debenture, initially issued to the Mutual Life Assurance Company of Canada and presently held by Lake & Co., repayable in five equal consecutive annual principal instalments of $200,000 commencing on 27 March 1985 and semi-annual interest payments on 27 March and 27 September, commencing 27 September 1984. The debenture is guaranteed unconditionally as to principal and interest by the Province of Newfoundland.	**400,000**	600,000
	1,800,000	2,200,000
Less: Current portion	**400,000**	400,000
	$ 1,400,000	$ 1,800,000

8. Related party transactions

(a) The Corporation is leasing office and warehouse space rent free from a Crown Corporation, B.L.C. Building Corporation Limited; however, all operating and maintenance costs related to the building are the responsibility of the Corporation.

(b) The Corporation is leasing retail space for its Bell Island branch rent free from the Department of Public Works and Services; however, all operating and maintenance costs related to the building are the responsibility of the Corporation.

9. Lease commitments

The Corporation has leases on file with terms ranging from 1 to 20 years covering retail outlets. Annual lease obligations during the next 5 years are as follows:

1988	$ 669,779
1989	513,295
1990	407,706
1991	306,219
1992	238,905
	$ 2,135,904

10. Comparative figures

During 1985, due to a labour dispute in the Newfoundland beer industry, the Corporation became totally involved in the importation, distribution and sale of beer. Beer normally sold by private enterprise was sold through Corporation outlets. This activity resulted in a significant increase in sales of spirits, wines, imported beer, cost of goods sold, net income from liquor store operations and a significant decrease in commission revenue on sale of beer. During the fiscal year 1985-86 sales increased by $67,000,000, cost of goods sold increased by $35,000,000, commission revenue on sale of beer decreased by $24,000,000 and net income increased by $8,000,000.

11. Pensions

The Public Service (Pensions) (Newfoundland Liquor Corporation) Regulations, 1974, made the Corporation and its staff subject to The Public Service (Pensions) Act with effect from 26 June 1973. Pension dues deducted from employees' salaries are matched by the Corporation and then remitted to the Province of Newfoundland Pooled Pension Fund from which pensions will be paid to employees when they retire.

BOARD OF DIRECTORS

Douglas M. Chafe, C.M.A., F.S.M.A.C.
President

Keith Griffiths
Vice-President, Operations

Gilbert C. Gill, C.A.
Director
(Representing Government of Newfoundland,
Treasury Board)

Peter F. Kennedy, B.Comm.
Director
(Representing Government of Newfoundland,
Dept. of Finance)

Edward White
Director
(Chairman, Newfoundland Liquor Licensing Board)

Charles W. White, Q.C.
Director

Edward P. Poole, Q.C.
Director